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Executive Summary

1998 Annual Report

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Executive Summary

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Introduction

The Missouri Department of Transportation (MoDOT) is pleased to present its first annual report required by legislation passed by the Missouri General Assembly in the 1998 session (House Bill 1681 and Senate Bill 883). This executive summary highlights information and conclusions that will help MoDOT preserve, enhance and support Missouri's transportation system. References are made to sections of the comprehensive report, which is available on the internet at www.modot.state.mo.us, and at the department's 10 district offices and the Support Center in Jefferson City.

A major component of the annual report is an explanation of the status of the 15-Year Road and Bridge Improvement Plan (hereafter referred to as the 15-Year Plan) and of Missouri's current highway needs. MoDOT conducted a complete and thorough review of the critical issues affecting the 15-Year Plan that it developed in 1992. To help fund the plan, a 6-cent per gallon motor fuel tax was approved in 1992 by the Missouri General Assembly, to be implemented in 2-cent increments in 1992, 1994 and 1996.

After a thorough review of the 15-Year Plan, the major conclusions are that initial cost estimates were substantially understated and other underlying assumptions have proven incorrect. It is therefore not possible, under any reasonable assumptions, for MoDOT to complete the 15-Year Plan with currently anticipated revenues.

To ensure MoDOT's analysis was thorough and accurate, the department retained KPMG Peat Marwick, an independent public accounting and auditing firm, to analyze and make recommendations regarding MoDOT's estimating procedures and methodologies. In addition, MoDOT worked with the state Office of Administration to develop a model to analyze the long-term outlook for completing and financing the 15-Year Plan or any other road and bridge program.

This is the most comprehensive annual report ever compiled by MoDOT. The department will gladly provide information on its operations, budgeting and project selection and will continue to answer questions and provide further details upon request.

MoDOT's 5-Year Plan

MoDOT has proposed a specific plan for highway construction covering the next five years. The plan relies only on currently anticipated revenues, and it specifically lists all known projects expected to be contracted in the next five years. As each year is completed, a new year is added.

Fifteen-Year Plan projects remain the focus of the 5-Year Plan, which also includes some desperately needed additional funding for road and bridge preservation, as well as some unallocated funds for future economic development needs and other new needs not presently known. For the period beyond this 5-year time horizon, MoDOT intends to continue focusing on the projects in the 15-Year Plan, although preservation and new needs must also be addressed.

For the period beyond the 5-year time horizon, MoDOT cannot commit to any particular 15-Year Plan project because there are insufficient revenues to build all of the projects. In other words, while MoDOT believes the projects in the 15-Year Plan are still important, any project that is not in the 5-Year Plan is uncertain and may not be built due to insufficient revenues.

The goals of the plan include the following.

- ◆ preservation
- ◆ safety
- ◆ congestion relief
- ◆ connectivity
- ◆ operational efficiency
- ◆ economic development
- ◆ non-motorized options

Five-Year Plan projects would be built according to schedule if funding continues according to anticipated levels, environmental requirements are met, legal issues are resolved and local planning organizations concur in project selection and funding.

Plan Provides Many Benefits

The 5-Year Plan will benefit Missourians. Through the 5-Year Plan, MoDOT will preserve the existing system, develop the state's major highway corridors, address air quality improvements, address Missouri's economic development needs, as well as work with metropolitan planning organizations and regional planning commissions.

Five-Year Plan projects include corridor improvements and regional improvements that Missourians, metropolitan planning organizations and regional planning commissions have said are most important to them.

Improved Cost Accuracy, Project Flexibility

MoDOT's shorter 5-year project planning cycle allows for more accurate cost estimates, and also allows greater flexibility to incorporate changing needs into future plans.

The 5-Year Plan was developed using improved cost-estimating procedures. These estimating procedures were further improved based on KPMG Peat Marwick's recommendations.

More information about the 5-Year Plan is in Section IV of the annual report.

Project Selection Process

Projects are determined on the basis of safety concerns, traffic needs and public input. All known projects listed in the 5-Year Plan are 1992 plan projects. Limited funding has also been set aside for unforeseen needs such as emergencies, safety improvements and economic development.

Rural corridor projects were selected through a process MoDOT has developed over the past two years. Priority rural corridors were included in the 15-Year Plan, which included 1987 Proposition A commitments. Several factors were considered to determine needs including safety, public comments, pavement condition, congestion, traffic volume and highway connections to other areas of Missouri and other states.

Rural preservation projects and rural regional projects were selected through a variety of factors that include the following.

- ◆ safety
- ◆ public comment
- ◆ cost
- ◆ traffic volume
- ◆ pavement condition
- ◆ coordination with other construction projects

The 5-Year Plan also includes three years' worth of urban projects that have been approved by the St. Louis and Kansas City metropolitan planning organizations. These organizations are responsible for approving the highway projects undertaken in their areas.

More information on the project selection process is in Section III of the annual report.

What Happened to the 15-Year Plan?

Under any reasonable assumptions, the 15-Year Plan projects cannot be completed in any time frame given currently anticipated revenues, even assuming permanent extension of the 6-cent motor fuel tax scheduled to sunset in 2008. Furthermore, this conclusion assumes no additional spending by MoDOT on preservation or new needs. Any additional spending on preservation or new needs will widen the funding gap in the 15-Year Plan.

The 15-Year Plan is not financially viable because it was based on three flawed cost assumptions.

1. Deficient initial cost estimates -- The latest cost estimates reveal that projects remaining at the end of the Short-Term Action Plan (STAP) will cost \$19.025 billion. The initial cost estimate for the entire 15-Year Plan in 1992 was \$14.018 billion. *Note: STAP was created in 1995 to complete Proposition A projects promised to the public in 1987, as well as honor high-priority 1992 commitments. STAP will end December 31, 1999.*
2. Lack of a factor for project inflation and project growth -- In 1992, MoDOT factored in zero project inflation/project growth. All other states for which MoDOT has data assume a factor for project inflation/project growth (usually 3 percent or more) or update their cost estimates annually. MoDOT now uses a factor of 3 percent for projects in the 5-Year Plan and 4.5 percent for projects beyond five years.
3. Revenue/expenditure imbalance -- The 15-Year Plan would not have been completed in 2010, even under the original assumptions proposed in 1992. As crafted and approved in 1992, projected costs exceeded projected revenues by \$1.4 billion. More specifically, the 15-Year Plan anticipated revenues of \$12.586 billion through 2010, assuming extension of the 6-cent motor fuel tax currently scheduled to sunset in 2008. The 15-Year Plan estimated \$14.018 billion in expenditures.

Increased Federal Revenue Won't Solve Problem

Total federal revenues for the construction program during the 15-Year Plan period are expected to be only \$138 million more than anticipated in 1992. The 15-Year Plan correctly anticipated a significant revenue increase from federal transportation legislation passed in 1991, called the Intermodal Surface Transportation Efficiency Act (ISTEA). ISTEA's successor, the Transportation Equity Act for the 21st Century

(TEA-21), was passed this year. However, ISTEA revenues were substantially less than projected in the 1992 15-Year Plan. It takes many years of TEA-21 revenue, plus revenues from the period after TEA-21, to make up for the ISTEA deficit.

Extending Schedule Won't Complete Plan

Simply extending the schedule for completion of the 15-Year Plan from 2010 to some later year will not result in the plan being completed. In fact, delay diminishes MoDOT's ability to construct the 15-Year Plan projects. This conclusion is true even if no additional funds are spent for preservation or any new needs. All of the long-term cost factors grow at higher rates than the revenues. As a result, with each year, there is a greater disparity between the cost of construction and revenues available for construction. Any delay increases the cost of completing the 15-Year Plan at a rate far greater than the rate of growth in revenues. The impact of these differential growth rates is substantial.

Preservation Needs Are Mounting

Preservation of our current roads and bridges is critical to the safety of Missouri motorists and to the state's economy. Although preservation was an element of the 15-Year Plan, the state's preservation needs are mounting more quickly than anticipated in the 15-Year Plan. The condition of the state's roads, especially interstate highways, has deteriorated since the 15-Year Plan was enacted. The 15-Year Plan vastly underestimated the state's preservation needs and associated costs. Preservation should be funded first, and at a much higher level than the 15-Year Plan envisioned. The state's preservation needs for roads and bridges are currently estimated to require an additional \$80 million annually.

15-Year Plan Projects Remain the Focus

The 15-Year Plan projects remain the focus of any road and bridge program. However, other substantial road and bridge needs, in addition to preservation, have been identified that were not included in the 15-Year Plan or addressed to the extent now necessary, including interstate highways and unidentified needs, including economic development.

*Detailed information about the 15-Year Plan is provided in MoDOT's **15-Year Plan Analysis**, which is separate from the annual report. The **15-Year Plan Analysis** is available on the internet at www.modot.state.mo.us, and at the department's 10 district offices and the Support Center in Jefferson City.*

Status of Projects Listed in the 15-Year Plan

This section of the annual report shows the current status of every project listed in the 15-Year Plan, including revised cost estimates. MoDOT will have 21 percent of the 15-Year Plan projects under contract or complete by December 31, 1999, at a cost of \$5.2 billion. According to the latest projections, the cost of completing projects remaining after 1999 will be about \$19.025 billion in Fiscal Year 1999 dollars. The initial cost estimate for the entire 15-Year Plan in 1992 was \$14.018 billion.

The majority of the projects included in this section of the annual report were specified in the original 15-Year Plan. Some were identified later under provisions in the plan that set aside \$2.3 billion to be used for priority needs such as pavement rehabilitation, safety, additional shoulders and bridge upgrades. About \$1.2 billion of these funds have been committed through the end of 1999. The plan also includes \$225 million for unidentified projects, including economic development, \$65 million of which have been committed to projects through the end of 1999.

15-Year Projects Can't be Completed with Current Revenues

After comparing initial cost estimates with revised estimates and currently anticipated revenues, the major conclusion is that the 15-Year Plan projects, under any reasonable assumptions, cannot be completed with currently anticipated revenues. This conclusion includes the assumption of permanent extension of the 6-cent motor fuel tax scheduled to expire in 2008. The funding shortfall is due to the factors mentioned earlier -- project cost estimates, inflation and project growth assumptions and the initial revenue/expenditure imbalance.

More information about the status of the 15-Year Plan projects is in Section VI of the annual report.

Current and Recently Completed Projects

This section includes the status of every 15-Year Plan project that has been completed since 1992 or is currently under construction. It includes revised cost estimates, as well as reasons for any changes.

MoDOT has completed \$2.3 billion worth of projects between 1992 and November 1998. This total includes \$496 million in construction projects that were completed in 1998. As of July 1998, \$1.3 billion in projects are underway. To quickly meet continuing transportation improvement needs, MoDOT will have \$500 million in project plans designed and ready for contract by the end of 1998.

The STAP, which was instituted in 1995 to put needed, high-priority highway projects under contract, will end in 1999. At that time, virtually all of the projects identified in the 1987 Proposition A plan will be completed or under contract.

Accomplishments have also been achieved in aviation, waterways, transit and railroads. In Fiscal Year 1998, more than \$74.7 million in improvements were made to the state's aviation, rail, water and transit facilities. Funding for the projects came from federal, state and local governments.

Improvements in other transportation modes include \$3.9 million for the state's share of Amtrak funding, \$4.4 million for the block-grant program that funds airport improvements, \$16.8 million (which includes \$13.9 million in local funds) for transit programs for the elderly and the disabled, \$18.7 million (which includes \$6.8 million in local funds) for local transit systems and \$444,987 in state port grants.

More information on this section is in Section VII of the annual report.

Financial Statements

As part of the annual report legislation, MoDOT is required to have its financial data verified by an independent accounting and auditing firm. In concurrence with the Office of Administration, MoDOT retained KPMG Peat Marwick, which reviewed the department's financial statements for the year that ended June 30, 1998.

The audit reviews the financial operations of the \$1.3 billion dollar agency responsible for building and maintaining the 32,000-mile state highway system, as well as for planning and distributing funds for the state's aviation, waterways, railroads and transit needs. MoDOT has buildings in every county in the state and has over 6,000 employees providing services to the citizens of Missouri.

Detailed financial information is included in Section II of the annual report.

Budgeting by MoDOT District

MoDOT is divided into 10 districts that cover the state and work closely with local organizations to provide transportation improvements. Management of statewide issues as well as general guidance, support and leadership are provided by the Support Center located in Jefferson City. Districts handle the details of local expenditures and are held accountable for results.

For Fiscal Year 1998, a total of \$1.058 billion in state and federal highway funds was spent in those 10 districts and the Support Center in Jefferson City. Funds expended by the Support Center divisions support district efforts, but are not directly allocable to the districts. This support includes design work, bridge design and maintenance.

More detailed district budgets are found in Section IX of the annual report.

Recommended Statutory or Regulatory Improvements

As MoDOT continues working to improve the construction and preservation of Missouri's transportation system, it will identify specific concerns to be addressed by legislation. MoDOT will work strategically with the Missouri General Assembly to explore ways to accelerate project completion and enhance programs and operations.

For the upcoming legislative session, some of MoDOT's recommendations include authorization for "design/build," which allows one contractor to design and build a project rather than bid these contracts separately, resulting in significant time savings. Another proposal outlines procedures that would allow the department to acquire needed right of way more quickly. A third proposal would allow MoDOT to charge utility companies fees for placing utility lines on department property. This funding would be used for line relocation during construction.

For more information on these items and other MoDOT concerns that may need future legislative attention, see Section VIII of the annual report.

Compliance with Legislation

To fully comply with accountability legislation, MoDOT has prepared more than 1,300 pages of documentation. Following is the complete report outline, listed by the section required by the accountability legislation. The report is also available on the internet at www.modot.state.mo.us and at the department's district offices located in St. Joseph, Macon, Hannibal, Kansas City, Jefferson City, Chesterfield, Joplin, Springfield, Willow Springs and Sikeston.

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- II. Financial Statements
 - A. Combined financial statements and schedules with independent auditor's report
 - B. Total state and federal revenue as proposed in 1992 Plan

III. Criteria for Prioritization of Projects

IV. Forecast of Planned Expenditures

- ◆ Detailed work plan for five years (Statewide Transportation Improvement Program)
 - Highway and bridge construction schedule
 - Other transportation modes
- ◆ Proposed allocation of expenditures for remainder of 1992 Plan

V. Schedule of Funds Expended by Project for Construction Work in Progress in Fiscal Year 1998

VI. Status of Projects in the 1992 Plan

VII. Program Estimates Compared to Costs of Projects Completed in 1998

VIII. Recommendations for Statutory or Regulatory Changes

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